BY FREDERICK CUTLER

Financing U.S. Direct Foreign Investment

1962 Capital Outlays Near $5 Billion

More Than Half of Funds Used Generated Internally—Foreign Production Outstrips Exports

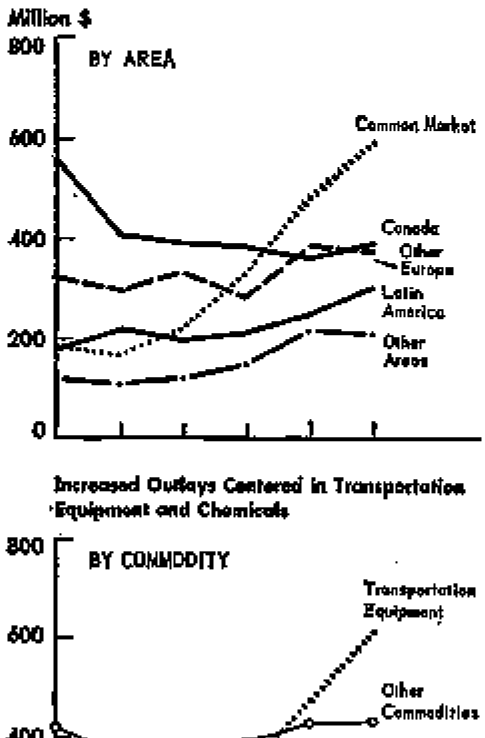
This report covers the fifth annual survey of the sources and uses of funds of foreign subsidiaries and branches of U.S. companies, giving the structure of these accounts for 1961, plus projections of plant and equipment expenditures through 1963 and data on sales of the foreign manufacturing enterprises as they have developed in the 1957–61 period.

These data provide measures of the scope and some of the effects of the rapidly growing foreign component of U.S. industry which supplement the data entering the balance-of-payments accounts. Foreign capital outlays and working capital in mining, manufacturing and petroleum required total financing of $5.6 billion in 1961, after income distributions, of which the capital flow from the United States supplied only a little over $1.2 billion. The remaining $4.4 billion came from internal funds generated by the operations of the companies abroad, or was obtained from foreign external sources.

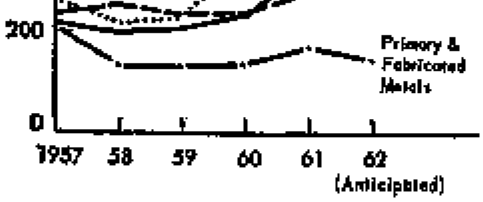
Stepped up expenditures by U.S. industry for plant and equipment abroad, especially in the manufacturing industries, are directly responsible for substantial gains in foreign production of a wide range of commodities.

CAPITAL EXPENDITURES ABROAD BY U.S. MANUFACTURING COMPANIES

1962 Gains Mainly in Common Market Countries



Increased Outlays Centered in Transportation Equipment and Chemicals



U.S. Department of Commerce, Office of Business Economics 62-9-8

Foreign Capital Outlays Rising

U.S. companies with direct foreign investments report that they expect to spend $4.8 billion to expand or improve their plant and equipment abroad in 1962, compared to $4.2 billion spent in 1961. This outcome would be only slightly under the record amount spent in 1957, when outlays by the petroleum industry were at a peak.

Current projections by the companies raise their previous anticipation for 1962 by about 6 percent, with most of the upward revision in the manufacturing facilities in Europe. Looking further ahead to 1963, the totals projected show little change for most industries and areas, although there is a tendency for reported amounts to become lower as they are projected further ahead because plans are less firm. There is, however, relatively strong indication that outlays in Europe by the transportation equipment industry will be reduced.

Manufacturing Investments at Peak

In 1962, U.S. manufacturing companies for the third successive year spent, or anticipated spending, larger sums for plant and equipment abroad. There is, however, a considerable selectivity in both industries and areas of investment. Projected capital outlays of $1.9 billion were $180 million more than the year before. Two thirds of this increase is being channeled into the Common Market area, with little change in the volume flowing into the rest of Europe (including the United Kingdom).

Investment activity by this industry in Latin America and Canada rose slightly, but declined in the rest of the world. On a commodity basis, nearly all of the additional capital outlays occurred in the transportation and chemical industries, while other industries, on balance, showed little net change.

Europe.—For the first time, Germany ranks highest in capital outlays with expected expenditures of $432 million in 1962 ($318 million in 1961). In comparison, the rate of capital expenditures in Canada was $391 million and the United Kingdom was in third position with $331 million. Plant investments by American companies in the rest of the Common Market area were $164 million, only moderately above the level of earlier years. In addition to heavy investments in the transportation industry, large amounts went into machinery and chemical industries.

The $331 million being invested in the United Kingdom is 90 percent of the total invested. In the rest of Europe, there was little change in the relatively small amounts spent in Scandinavia. The same industries important in the Common Market Countries, also play the major role in investments in the United Kingdom and the rest of Europe.

For 1963, the projected decline in expenditures in the Common Market, and the increase of expenditures in the rest of Europe, is mainly connected with changes in the planned build-up of automotive and related facilities. Investments in chemicals are also rising strongly, influenced by activities of oil companies in the petrochemical field.

Canada.—Affected by a lagging rate of economic expansion in Canada in the last few years, investment activities of U.S.-controlled manufacturing companies in Canada have changed little. After a small reduction of capital outlays in 1961, the former level is expected to be regained in 1962, with 1963 totals expected to hold at the 1962 amount. Modest gains in 1962 in most industries (except for primary and fabricated metals) amount to $30 million, bringing total outlays to $391 million. Current investment expenditures are considerably below the 1957 total of $561 million, when major additions were made to the primary metals and paper industries.

Latin America.—Manufacturing outlays for Latin America are the highest reported since the beginning of these surveys in 1957, amounting to an anticipated $300 million, 20 percent above the 1961 total. In this area, as in Europe, the new investment programs are concentrated in the chemical and transportation industries. Expansion is largely limited to three countries—Argentina, Brazil, and Mexico.

As in 1961, anticipated investments were largest in Argentina, with Brazil being next in importance. These two countries account for more than two-thirds of all such investments in the area. In Mexico and Venezuela, capital expenditures for manufacturing have held relatively steady since 1957.

The stability of planned capital outlays in Latin America contrasts with wider fluctuations in capital flows from the United States. Within the aggregate of all industries these fluctuations in capital flows reflect largely net inflows to the United States from petroleum investments which offset outflows for manufacturing. For manufacturing alone, however, it should be noted that these outflows from the United States accounted for about one fifth of the funds available to the enterprises (table 5) in 1961, and only about one third of their plant and equipment expenditures.

Investment in manufacturing facilities elsewhere is confined primarily to a few of the industrially more advanced countries—Australia, Japan, the Union of South Africa, and a few others. These countries account for nearly all of the capital expenditures by American manufacturing companies in Africa, Asia and Oceania. Reduced outlays were reported for India, where the 1961 amount was unusually high, but the total for Australia increased to $103 million ($90 million in 1961), while expenditures in Japan were expected to remain unchanged at $49 million.

Table 1.—Plant and Equipment Expenditures of Direct Foreign Investments, by Country and Major Industry, 1960–63

(Millions of dollars)

Area and country	1960			1961 r			1962 p			1963 p		
	Mining and smelting	Petroleum	Manufacturing	Mining and smelting	Petroleum	Manufacturing	Mining and smelting	Petroleum	Manufacturing	Mining and smelting	Petroleum	Manufacturing
All areas, total	420	1,457	1,337	320	1,572	1,681	306	1,425	1,860	343	1,811	1,735
Canada	290	360	361	165	310	361	290	345	391	175	390	390
Latin American Republics, total	53	387	286	72	270	250	76	305	300	59	281	277
Mexico, Central America and West Indies, total	10	20	30	8	21	47	8	27	49	7	24	45
Mexico	8	1	37	7	2	44	5	2	46	6	2	42
Other countries	2	19	2	1	19	3	1	25	3	1	23	3
South America, total	44	277	167	64	249	201	69	278	240	52	259	232
Argentina	(*)	43	61	(*)	90	80	(*)	90	128	(*)	45	176
Brazil	3	5	64	2	5	82	1	5	72	1	5	99
Chile	25	(*)	3	26	(*)	6	30	(*)	6	21	(*)	6
Colombia	(*)	25	21	(*)	22	16	(*)	21	14	(*)	19	12
Peru	11	17	9	27	28	10	20	31	7	18	31	7
Venezuela	(*)	100	17	(*)	128	17	(*)	160	19	(*)	100	18
Other countries	(**)	(*)	3	2	(*)	2	1	(*)	4	1	(*)	3
Other Western Hemisphere	24	41	1	23	33	1	33	57	1	31	61	1
Europe, total	2	346	608	1	435	854	3	537	908	1	549	894
Common Market, total	(**)	146	329	(**)	185	475	(**)	285	506	(**)	313	404
Belgium and Luxembourg	(**)	20	16	(**)	7	21	(**)	11	22	(**)	10	20
France	(**)	33	60	(**)	31	68	(**)	48	74	(**)	51	70
Germany	(**)	55	205	(**)	70	318	(**)	160	432	(**)	128	284
Italy	(**)	19	20	(**)	64	40	(**)	36	60	(**)	64	51
Netherlands	-------	20	22	-------	14	28	-------	30	20	-------	60	28
Other Europe, total	2	200	280	1	252	381	3	312	372	1	237	400
Denmark	-------	17	3	-------	19	2	-------	32	2	-------	22	2
Norway	(**)	21	5	(**)	7	6	(**)	9	7	(**)	9	8
Spain	(**)	3	4	(**)	3	9	(**)	8	5	(**)	8	8
Sweden	-------	17	4	-------	18	10	-------	34	9	-------	25	8
Switzerland	-------	4	6	-------	3	10	-------	6	12	-------	5	16
United Kingdom	-------	100	252	-------	170	338	-------	200	331	-------	150	356
Other countries	2	39	5	1	32	4	3	24	7	1	18	5
Africa, total	44	115	30	47	173	10	67	188	12	68	160	12
North Africa	(**)	75	(**)	(**)	111	(**)	(**)	134	(**)	(**)	110	(**)
East Africa	(**)	7	(**)	(**)	9	(**)	(**)	12	(**)	(**)	13	(**)
West Africa	10	23	(**)	23	34	(**)	37	30	(**)	26	20	(**)
Central and South Africa, total	29	10	10	25	17	10	30	11	12	30	12	12
Union of South Africa	16	(*)	8	10	(*)	8	10	(*)	11	10	(*)	11
Other countries	13	(*)	2	15	(*)	2	20	(*)	1	20	(*)	1
Asia, total	(**)	170	72	(**)	105	114	1	243	92	1	310	83
Middle East	-------	70	13	-------	87	12	-------	111	6	-------	102	6
Far East, total	(**)	101	60	(**)	108	102	1	132	86	1	148	77
India	-------	(*)	10	-------	(*)	30	-------	(*)	22	-------	(*)	16
Japan	-------	(*)	30	-------	(*)	48	-------	(*)	49	-------	(*)	49
Philippine Republic	-------	(*)	11	(**)	(*)	9	-------	(*)	9	-------	(*)	10
Other countries	(**)	(*)	1	(**)	(*)	4	1	(*)	5	1	(*)	5
Oceania, total	13	60	56	12	64	93	16	35	105	30	30	110
Australia	12	(*)	55	12	(*)	90	10	(*)	103	30	(*)	106
Other countries	-------	(*)	2	-------	(*)	3	(**)	(*)	2	(**)	(*)	4
International shipping	-------	85	-------	-------	55	-------	-------	60	-------	-------	40	-------

*Included in area total. **Less than $500,000. r Revised. p Estimated on the basis of company projections.

NOTE.—Detail may not add to totals because of rounding.

Petroleum and Mining Expansion

American oil companies are currently investing abroad at an annual rate of

$3½ billion to develop new producing and refining capacity. This includes exploration and development costs charged against income of $.4 billion, and capital expenditures of over $1.8 billion.

Capital outlays of this industry are expected to rise in all areas in 1962 and are currently projected by the companies to remain stable for 1963. The most pronounced growth is seen for Europe, where outlays are now anticipated at close to $600 million for 1962, an increase of $160 million from the prior year.

Nearly all of this capital is intended for new refinery capacity, as well as the related facilities to transport, store and market the additional output. Most of these outlays are going to the United Kingdom ($200 million) and Germany ($140 million), but significant amounts are also being invested in the Scandinavian countries, the Netherlands and, to a lesser extent, in France and Italy.

Plant and equipment expenditures are still on the increase in North Africa where new oil fields have been brought to production (Libya), or are being explored and tested (Algeria and other North African countries). In the Middle East and Far East, capital expenditures are scheduled to rise substantially in 1962 and advance further in 1963.

Capital outlays in Latin America are higher in 1962 due to active development work carried out by oil companies in Argentina, and a somewhat higher volume of investment in Venezuela and Trinidad. Exclusive of activity in Venezuela, 1962 is expected to show a peak of oil investment activity in Latin America, with capital spending amounting to $312 million. Aside from Argentina and Trinidad, substantial operations are carried on in Bolovia, Colombia, Peru, and Central America.

Expenditures in Canada were little changed from the 1961 volume, but companies report a moderate improvement in spending levels for 1963.

Mining investments are also expected to be generally higher in 1962. Increases are reported mainly in Canada, Surinam and Jamaica, Central and West Africa, and, to a more limited extent, in Australia.

In Canada, new capital outlays are connected with the development of additional iron ore resources, largely in association with foreign concerns. Even though these investment programs carry over into 1963, reports received indicate reduced capital spending in that year. In other parts of Western Hemisphere, facilities connected with the production of bauxite and its reduction to alumina, and renewed investment in copper mine properties, result in a projected rise of 15 percent in 1962. Elsewhere, the growth of mining outlays is largely restricted to Central and West Africa and is based on the development of iron ore mines and of bauxite.

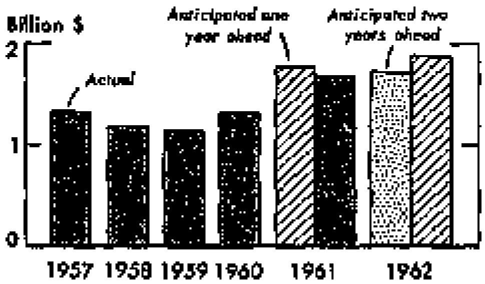
Other industries

Investments in other industries, excluding shipping companies and construction and engineering firms, are scheduled to rise in 1962 to $672 million. Companies in the trade and distribution field continue to expand capital outlays, which are at a peak in 1962 and are projected to be higher in 1963. The growth in capital spending by this industry is largely centered in Europe, where it is rising by $50 million to $225 million for 1962.

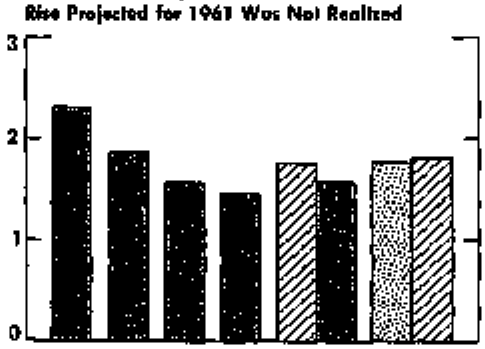
Plant and equipment expenditures of the public utility and agriculture industries have tended downward and in 1962 are the lowest since 1957. These investments are located principally in Latin America, and the investment programs have been strongly influenced by major liquidations and expropriations in that area.

ACTUAL AND PROJECTED* PLANT AND EQUIPMENT EXPENDITURES ABROAD

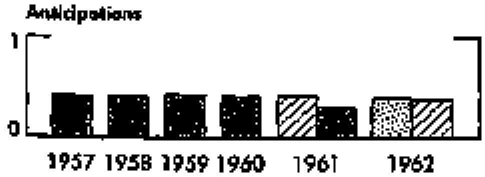
MANUFACTURING—Current Anticipation for 1962 Raised Over Previous Figure, but 1961 Actual Fell Short of Forecast



PETROLEUM—Projection for 1962 Stable Rise Projected for 1961 Was Not Realized



MINING AND SMELTING—Little Variation in Anticipations



*Projections are based on reports supplied by a sample group of companies

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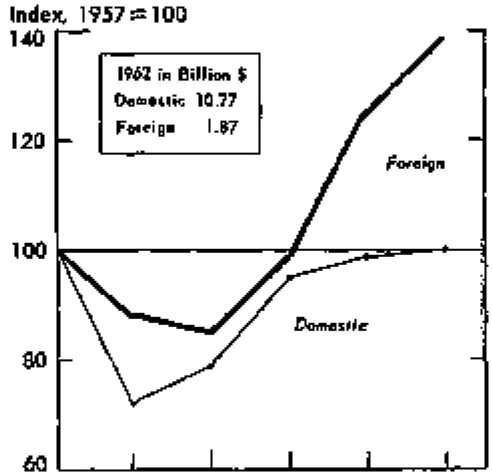
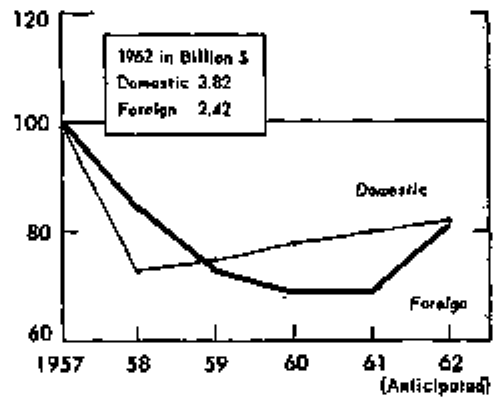
Comparison of Domestic and Foreign Plant And Equipment Expenditures by U.S. Companies, 1957-62

MANUFACTURING*—Foreign Expenditures Show Stronger Growth Than Domestic Expenditures



PETROLEUM AND MINING—Foreign Expenditures Turn Upward in 1962



* Excludes primary iron and steel and petroleum products.

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Table 2.—Plant and Equipment Expenditures Abroad by U.S. Manufacturing Companies, by Area and Major Commodity, 1959–63

(Millions of dollars)

Areas and years	Total	Food products	Paper and allied products	Chemicals	Rubber products	Primary and fabricated metals	Machinery, except electrical	Electrical machinery	Transportation equipment	Other manufacturing
All areas, total										
1959	1,147	82	83	232	70	127	109	90	278	114
1960	1,337	97	78	237	96	133	132	104	336	162
1961 r	1,651	116	71	277	91	109	190	141	473	163
1962 e	1,886	113	70	320	87	142	185	158	613	190
1963 e	1,735	104	67	363	72	140	208	159	477	191
Canada										
1959	389	22	63	76	14	65	10	27	65	43
1960	384	30	63	73	65	49	17	30	49	50
1961 r	301	20	54	55	18	55	16	31	60	42
1962 e	301	24	46	65	24	40	15	35	69	60
1963 e	300	20	45	74	15	40	14	39	75	60
Latin America [1]										
1959	193	26	8	53	16	10	6	16	41	20
1960	207	24	7	40	12	11	8	18	47	21
1961 r	249	37	5	47	10	23	9	37	62	29
1962 e	290	30	2	85	10	12	10	25	87	30
1963 e	278	30	3	18	18	11	12	23	68	34
Europe:										
Common Market										
1959	214	10	2	20	4	9	61	21	62	10
1960	328	17	2	44	11	10	72	21	128	23
1961 r	476	30	3	63	11	19	105	34	181	27
1962 e	600	20	3	62	12	32	95	44	293	37
1963 e	464	30	3	67	16	34	118	37	111	33
Other Europe										
1959	230	13	5	60	23	30	20	17	40	22
1960	280	18	3	42	15	50	24	19	74	35
1961 r	391	17	4	49	15	46	47	30	141	31
1962 e	372	20	4	65	17	37	50	42	109	29
1963 e	400	10	4	73	12	36	51	44	159	4
Other areas										
1959	115	11	3	22	19	7	6	10	20	11
1960	138	8	12	28	10	13	10	16	23	12
1961 r	210	12	5	43	28	20	13	17	30	13
1962 e	208	10	3	52	24	21	25	12	70	11
1963 e	201	9	3	50	11	30	13	13	78	10

r Revised.
e Estimated on the basis of company projections.

NOTE.—Detail may not add to totals because of rounding.

1. Includes other Western Hemisphere.

Table 3.—Plant and Equipment Expenditures of Direct Foreign Investments, Major Industries, 1957–63

(Millions of dollars)

Area and industry	1957	1958	1959	1960	1961 r	1962 e	1963 e
All areas, total	4,830	4,007	3,708	3,789	4,178	4,782	4,546
Mining and smelting	421	420	437	426	320	306	343
Petroleum	2,332	1,854	1,558	1,407	1,572	1,820	1,811
Manufacturing	1,347	1,180	1,147	1,337	1,681	1,886	1,736
Trade	180	101	108	250	331	402	413
Other industries	548	452	305	303	272	370	292
Canada, total	1,095	1,317	1,179	1,250	1,043	1,142	1,097
Mining and smelting	163	172	240	200	196	200	170
Petroleum	654	600	380	300	340	345	350
Manufacturing	561	404	390	384	301	391	300
Trade	47	55	45	40	40	58	65
Other industries	238	170	125	165	112	108	107
Latin America, total [1]	1,687	1,269	1,003	750	805	928	849
Mining and smelting	216	221	147	78	95	106	90
Petroleum	1,050	577	440	340	309	302	344
Manufacturing	174	202	193	207	249	290	278
Trade	20	31	31	35	46	65	59
Other industries	238	238	183	90	107	164	167
Europe, total	899	970	908	1,092	1,481	1,810	1,680
Mining and smelting	2	....	2	2	1	3	1
Petroleum	275	423	330	348	439	597	540
Manufacturing	497	400	460	608	860	968	864
Trade	107	87	104	125	175	225	230
Other industries	18	7	14	12	13	17	10
Other areas, total	649	511	417	688	847	922	900
Mining and smelting	40	27	45	50	60	84	77
Petroleum	421	345	380	423	485	625	658
Manufacturing	116	114	115	138	210	208	204
Trade	12	18	21	35	48	44	65
Other industries [2]	40	37	43	35	40	41	32

r Revised.
e Estimated on the basis of company projections.

NOTE.—Detail may not add to totals because of rounding.

1. Includes other Western Hemisphere.
2. Excludes international shipping.

Share of foreign outlays

As the relative increase of foreign plant and equipment expenditures continues to exceed the domestic rate, foreign outlays have tended for some time to take a larger share of total plant expansions by U.S. manufacturing companies. The anticipated 1962 rise in foreign outlays is 14 percent, compared to a domestic increase of 8 percent, as reviewed in an analysis in this issue.

For major segments of the manufacturing industry foreign capital investments range from 9 percent to 34 percent of total outlays, as shown in table 4. The overall ratio for the industries shown is 18 percent in 1962. This proportion has risen from 13–14 percent in 1959–60.

Foreign capital outlays now account for well over one third of the combined total for petroleum and mining, and have been growing somewhat faster recently than domestic expenditures.

Working Capital Requirements

About $2 billion was used by foreign affiliates in the mining, oil and manufacturing industries to add to working capital and other assets in 1961, about $¼ billion more than in 1960.

Inventory accumulation has been relatively volatile, tending to increase sharply as the rate of economic activity is stepped up in various areas. Thus, in 1961 the rate of inventory accumulation was much reduced for manufacturing companies in Europe from the extraordinary rate of 1960, and there were also lower accumulations for this industry in Latin America and the Far East, while accumulations in Canada were somewhat larger.

Additions to inventories by mining and petroleum companies were relatively minor.

Receivables on the books of the foreign affiliates continued to rise in 1961, at a somewhat faster rate than in 1960. Most of these receivables accumulated on the books of manufacturing companies and are related to the build up of production facilities abroad and the ever larger volume of foreign sales. Petroleum companies have substantially increased the growth of receivables, partly owing to larger sales and partly related to the lengthening of payment terms.

Nearly $800 million was added to "other" assets in 1961, compared with $330 million in 1960, the smallest amount since 1957.

The 1960 increase in these assets appears to have been unusually low because of the need to finance the increase in manufacturing inventories in Europe, whereas in 1961 these companies used less funds for this purpose and also increased their external financing abroad. On the other hand, petroleum affiliates in the producing areas reported substantial increases in "other" assets in 1961, possibly representing longer-term financing extended to affiliates and other customers or to local governments.

Sources of Financing

In order to finance fixed capital outlays and the accumulation of inventories and other assets, U.S. companies abroad rely principally on internally generated funds. Of the $5.6 billion needed in the major industries to cover these requirements in 1961, about $3.0 billion came from the companies' own resources, mainly cash flows from depreciation and depletion charges, and from retained earnings. This was not greatly different from the amount generated the year before, though a larger volume of funds available from depreciation and depletion accounts counterbalanced a decline in retained earnings.

Depreciation and related items amounted to $2.2 billion in 1961, up from $1.9 billion in 1960. As in earlier years, depreciation charges were large relative to plant and equipment expenditures abroad, amounting to 70 percent for oil companies, 53 percent for manufacturing companies, and 65 percent for mining firms.

Oil companies charged about $1.1 billion to depreciation and depletion accounts abroad, including about $.4 billion in Latin America. This provided ample funds for capital outlays by a number of companies in the oil industry in that area, but elsewhere, particularly in Europe and the other areas, this source of funds was inadequate and had to be supplemented by external sources of funds. These contrasting situations are related to the reduced flows of direct investment capital to Latin America for this industry, while there were sizable outflows from the United States to Europe, North Africa, and the rest of the Eastern Hemisphere.

The manufacturing industry reported depreciation charges in 1961 of $.9 billion, about $100 million more than the year before, with about 80 percent in Europe and Canada. Although capital outlays in Canada declined slightly, requirements for working capital increased as well as income distributions so that somewhat larger amounts of external funds were used by the Canadian organizations. In Europe, capital needs were heavy and internally generated funds did not increase in the year as retained earnings were cut back. Accordingly, manufacturing firms in Europe raised larger amounts from outside sources. Foreign investors and creditors together with U.S. parent companies, invested $820 million to add to fixed assets or finance working balances. This was the highest amount raised from external sources in the 1957–61 period.

A slightly larger volume of internal sources of funds, together with lower needs in 1961 for investment in fixed and current assets, made it possible for mining firms to decrease reliance on external sources of funds. These external sources accounted for only $130 million of the $450 million used in this industry.

Retained earnings have also long been an important source of internal funds for United States direct investment enterprises abroad, usually accounting for about one fifth of the funds

SALES OF MANUFACTURES BY DIRECT INVESTMENT ENTERPRISES ABROAD

Machinery, Chemicals, and Transportation Equipment Show Largest Gains

Total Sales Reach $25.6 Billion

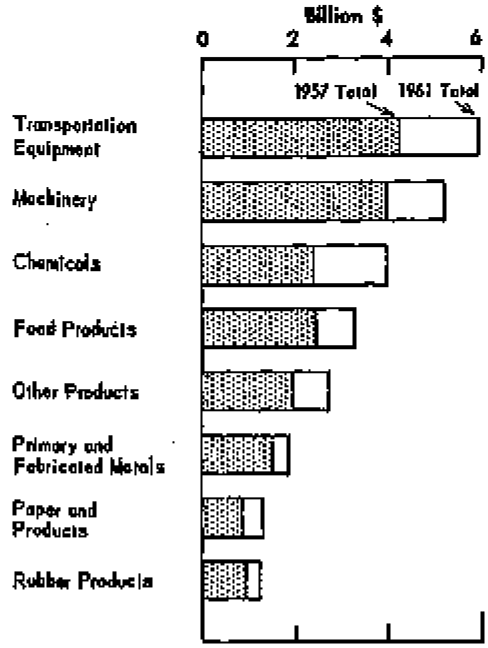

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Table 4.—Domestic and Foreign Expenditures for Plant and Equipment in Selected Industries 1960–62

(Amounts in millions of dollars)

Industry	Expenditures—1960				Expenditures—1961				Expenditures—1962 *			
	Total	Domestic	Foreign	Percent of foreign total	Total	Domestic	Foreign	Percent of foreign total	Total	Domestic	Foreign	Percent of foreign total
Manufacturing												
Food products	1,017	920	97	10	1,090	980	110	11	1,143	1,030	113	10
Paper and allied products	828	750	78	9	751	680	71	9	780	710	70	9
Chemicals	1,237	1,000	237	19	1,897	1,620	277	15	1,979	1,650	329	17
Rubber products	298	200	98	33	311	220	91	29	337	250	87	26
Primary and fabricated metals [1]	1,143	1,010	133	12	1,029	920	109	10	1,202	1,060	142	12
Machinery, except electrical	1,232	1,100	132	11	1,290	1,100	190	15	1,425	1,240	185	13
Electrical machinery	784	680	104	13	831	690	141	17	848	690	158	19
Transportation equipment	1,640	1,310	330	20	1,603	1,130	473	30	1,828	1,210	618	34
Selected industries, total	8,785	7,600	1,185	13	8,868	7,340	1,528	17	9,512	7,810	1,702	18
Mining and petroleum	5,523	3,630	1,893	34	5,632	3,740	1,892	34	6,044	3,820	2,224	37

* Estimated on the basis of company projections.

1. Excludes primary iron and steel producers.

Note.—Foreign expenditures include acquisitions of existing fixed assets, which are excluded from the domestic series.

utilized. However, in 1961 the amount of these reinvested earnings in manufacturing, petroleum and mining was reduced to $768 million, nearly two-thirds accounted for by manufacturing companies. While petroleum and mining reinvestment was not much changed from 1960, the amount for manufacturing was sharply reduced to $485 million from $744 million the year before. Most of the decline was in Canada, where dividends rose though earnings were reduced.

External financing

Funds from external sources amounting to $2.6 billion in 1961 were about evenly divided between funds obtained from the U.S. parent companies and other U.S. sources, and funds obtained abroad by the foreign companies. These external sources rose by nearly $600 million in 1961, with foreign sources providing most of the increase. Where internal sources of funds were adequate to finance needs for investment outlays and for working capital, funds drawn from the United States were at a minimum. However in industries and areas where heavy investment activity was taking place, funds from parents and other U.S. investors tended to rise significantly. In particular, increased investments in manufacturing and petroleum in Europe and the rest of the Eastern Hemisphere required accelerated capital flows from United States owners, and accounted for nearly three-quarters of the total outflow from the United States.

As mentioned above foreign investors and creditors provided American-owned foreign enterprises with sizable amounts of funds to supplement internal sources and parent company financing. The rapidly advancing investments of manufacturing companies in Europe used about $600 million of such financing accounting for 40 percent of the funds used in these European affiliates. Petroleum companies in Europe also increased their use of foreign financing. In Canada larger amounts of foreign funds were used to refinance mining ventures and also to finance larger working capital requirements in manufacturing.

Table 5.—Sources and Uses of Funds of Direct-Investment Enterprises by Area and Selected Industry, 1959–61

(Millions of dollars)

SOURCES OF FUNDS

Area and industry	Total sources			Net income			Funds from United States			Funds obtained abroad [1]			Depreciation and depletion		
	1959	1960r	1961	1959	1960r	1961	1959	1960r	1961	1959	1960r	1961	1959	1960r	1961
All areas, total	6,774	7,245	8,217	2,837	3,256	3,361	1,181	1,046	1,240	985	1,017	1,391	1,771	1,927	2,164
Mining and smelting	873	1,016	813	372	510	479	164	158	10	156	147	113	182	181	206
Petroleum	2,893	2,930	3,696	1,190	1,300	1,668	423	454	743	256	153	301	914	957	1,000
Manufacturing	3,008	3,300	3,708	1,269	1,370	1,382	469	434	400	578	717	977	690	778	889
Canada, total	1,849	1,737	1,652	711	780	780	376	371	238	262	−22	220	498	602	617
Mining and smelting	396	447	390	112	167	161	131	202	9	95	13	140	57	75	80
Petroleum	441	540	436	99	169	190	112	138	60	41	45	20	189	207	217
Manufacturing	1,000	741	827	500	470	400	143	31	127	60	−80	60	300	320	340
Latin America, total [2]	1,470	1,714	1,781	485	789	874	228	81	110	186	317	184	471	522	611
Mining and smelting	343	332	291	187	231	219	36	−60	−20	48	61	−10	74	92	102
Petroleum	702	730	915	333	380	477	132	24	44	−90	−24	−10	327	350	404
Manufacturing	425	652	575	135	170	178	70	125	80	160	277	208	70	80	105
Europe, total	1,877	2,001	2,678	620	685	700	351	615	587	447	373	732	429	467	659
Mining and smelting	12	11	8	8	10	8	(**)	(**)	(**)	3	−1	−2	1	2	2
Petroleum	578	493	770	110	57	87	160	273	300	144	−12	130	108	148	193
Manufacturing	1,287	1,497	1,900	490	601	614	231	240	227	300	380	595	290	310	364
Other areas, total	1,582	1,793	2,096	961	1,022	1,038	166	73	317	220	352	242	316	346	389
Mining and smelting	123	225	124	68	113	88	27	16	27	11	74	−16	26	22	24
Petroleum	1,172	1,168	1,470	648	748	700	134	19	240	160	144	101	230	255	295
Manufacturing	287	410	490	138	168	100	25	38	50	49	134	116	63	79	60

USES OF FUNDS

Area and industry	Total uses			Property, plant, and equipment			Inventories			Receivables			Other assets [3]			Income paid out		
	1959	1960r	1961	1959	1960r	1961	1959	1960r	1961	1959	1960r	1961	1959	1960r	1961	1959	1960r	1961
All areas, total	6,774	7,245	8,217	3,142	3,238	3,574	378	793	482	487	490	768	819	330	782	1,040	2,240	2,413
Mining and smelting	873	1,016	813	437	430	320	37	96	27	67	37	18	79	41	70	253	413	368
Petroleum	2,893	2,930	3,696	1,558	1,457	1,572	−8	20	85	63	164	274	102	59	388	1,080	1,221	1,377
Manufacturing	3,008	3,300	3,708	1,147	1,337	1,091	349	677	370	356	429	474	647	231	316	610	620	667
Canada, total	1,849	1,737	1,652	1,049	1,034	866	104	93	121	118	88	193	202	160	184	352	390	468
Mining and smelting	396	447	390	240	280	165	18	58	61	26	−10	40	50	25	48	61	84	85
Petroleum	441	540	436	390	300	340	−4	5	10	12	26	27	−5	60	30	68	99	122
Manufacturing	1,000	741	827	389	384	361	150	30	60	80	46	124	157	76	100	233	207	260
Latin America, total [2]	1,470	1,714	1,781	739	626	653	89	124	37	58	250	220	17	26	137	480	624	734
Mining and smelting	343	332	291	147	78	96	18	22	−18	26	31	−17	19	−50	17	134	261	214
Petroleum	702	730	915	440	340	300	−30	−24	−5	30	105	107	−35	−50	70	288	349	434
Manufacturing	425	652	575	153	207	249	101	126	50	40	170	130	33	125	50	58	74	80
Europe, total	1,877	2,001	2,678	791	955	1,290	94	453	316	237	220	264	372	10	241	383	361	483
Mining and smelting	12	11	8	3	2	1	(**)	(**)	(**)	−1	−3	−1	(**)	1	−1	11	8	9
Petroleum	578	493	770	338	345	438	4	20	70	23	3	95	90	20	82	120	87	80
Manufacturing	1,287	1,497	1,900	450	608	850	89	424	246	214	220	170	280	−20	150	247	266	374
Other areas, total	1,582	1,793	2,096	553	616	786	31	123	9	37	94	89	227	135	220	734	829	928
Mining and smelting	123	225	124	48	50	59	1	10	−0	17	16	−4	10	65	13	47	60	60
Petroleum	1,172	1,168	1,476	300	422	485	21	10	5	(**)	31	45	146	30	200	615	676	741
Manufacturing	287	410	496	115	138	210	9	97	10	20	44	48	71	51	5	72	90	127

(**) Less than $500,000.
r Revised.
1. Includes miscellaneous sources.
2. Includes other Western Hemisphere.
3. Includes miscellaneous uses.

NOTE: Detail may not add to totals because of rounding.

Growth of Manufacturing Production Abroad

In 1961 sales by U.S.-owned manufacturing companies abroad reached $25¾ billion, a rise of $2 billion in the year and some 40 percent over the amount reported in 1957, when the collection of these data began.

Supported by the heavy investment activity of recent years, output has gained rapidly in Europe and reached $10.7 billion in 1961. Growth since 1957 was about 70 percent, and more than 15 percent in 1961. Gains over 1960 were large in the chemicals, food and machinery groups, but automobile sales slowed compared to earlier years, with 1961 totals only 3 percent above 1960. Sales increased substantially in France, Germany and the United Kingdom.

Manufacturing production in Latin America grew more rapidly than in any other area in 1961, gaining nearly 20 percent. Argentina, where companies for a number of years have added

Table 6.—Production Abroad by Direct-Investment Enterprises, Principal Commodities by Areas, 1957, 1959–61

(Millions of dollars)

Area and year	Manufacturing total	Food products	Paper and allied products	Chemicals	Rubber products	Primary and fabricated metals	Machinery excluding electrical	Electrical machinery	Transportation equipment	Other products
All areas, total:										
1957	18,331	2,467	881	2,411	968	1,548	1,908	2,017	4,228	1,980
1959	21,100	2,810	1,170	2,950	1,040	1,590	2,290	2,150	5,140	2,100
1960	23,670	2,920	1,290	3,200	1,170	1,600	2,490	2,280	6,170	2,310
1961	25,590	3,270	1,310	3,975	1,216	1,675	2,735	2,470	6,000	2,730
Canada:										
1957	7,897	928	760	807	272	927	695	1,080	1,488	942
1959	8,670	1,000	1,030	1,070	290	930	740	1,030	1,000	880
1960	8,920	1,020	1,100	1,150	310	920	780	1,040	1,050	960
1961	8,920	1,095	1,115	1,300	295	940	780	1,000	1,450	905
Latin America:[1]										
1957	2,435	668	55	490	230	111	60	108	375	292
1959	2,830	740	60	590	260	100	80	160	470	340
1960	3,180	750	70	630	280	110	100	240	710	370
1961	3,770	780	85	820	300	100	115	300	770	440
Europe:										
1957	6,313	734	34	822	202	435	1,009	578	1,700	630
1959	7,600	760	50	1,050	290	470	1,210	770	2,330	740
1960	9,310	900	60	1,240	360	500	1,420	890	2,970	880
1961	10,670	1,120	70	1,510	400	550	1,635	1,050	3,070	1,125
Other areas:										
1957	1,685	188	23	103	105	75	133	90	665	110
1959	1,910	208	30	240	200	70	150	110	720	140
1960	2,180	250	30	280	220	70	190	110	840	170
1961	2,220	275	40	345	220	85	235	120	710	200

1. Includes other Western Hemisphere.

sizable amounts to their plant facilities, showed gains of about 30 percent. Sales grew strongly in chemicals, in primary and fabricated metals, and electrical machinery.

No increase in sales was reported for Canada, with total production remaining stable at $8.9 billion. Decreases in sales in the transportation industry, in machinery, and in rubber products, offset gains in other commodity groups, notably a rise of output in the chemical industry of nearly 15 percent. Sales in other areas were moderately improved overall, despite reduced sales of transportation equipment.

Comparison with U.S. exports

In the period since 1957, production in selected industries in United States-owned manufacturing plants abroad rose by more than 40 percent, while in the same period exports from the United States of the same commodities advanced by less than 10 percent (see table 8). These selected industries had sales in 1961 of $17.7 billion, out of production by all manufacturing groups abroad totaling $25.6 billion.

While the figures show a strong rise of foreign production, considerable variations exist between areas and industry groups. Production in Canada by United States manufacturing subsidiaries advanced by less than 15 percent since 1957, and remained at a standstill in 1961. In the same period exports to Canada of these products declined slightly.

On the other hand, production in Europe rose by nearly 70 percent since 1957 (15 percent in 1961 alone), and U.S. exports to Europe of the same commodity groups also increased by about 70 percent since 1957, and by about 14 percent in 1961. For both Canada and Europe, the absolute size of production abroad for these items is much greater than exports from the United States.

For the "Other Area" group, which includes Australia, Japan, and other countries in the Middle East and Far

(*Continued on p. 32*)

Table 7.—Production Abroad by Direct-Investment Manufacturing Enterprises, by Selected Countries 1957, 1959–61

(Millions of dollars)

Area and country	1957	1959	1960	1961
All areas total	18,331	21,100	23,670	25,590
Canada	7,897	8,670	8,920	8,920
Latin America, total[1]	2,435	2,830	3,180	3,770
Argentina	385	420	590	695
Brazil	480	704	870	940
Mexico	643	751	770	830
Venezuela	208	304	360	380
Other countries	480	620	475	605
Europe, total	6,331	7,600	9,310	10,670
Belgium, Netherlands and Luxembourg	410	401	602	740
France	763	789	965	1,105
Germany	1,116	1,572	1,835	2,205
Italy	230	214	350	475
United Kingdom	3,303	4,050	4,715	5,070
Other countries	486	574	848	995
Other areas, total	1,685	1,910	2,180	2,220
Australia	757	933	1,085	1,045
Japan	217	240	290	380
Philippine Republic	118	141	140	180
Union of South Africa	300	292	305	335
Other countries	263	304	310	300

1. Includes other Western Hemisphere.

Table 8.—Exports From the United States and Production by Direct Investments Abroad of Selected Manufactures, by Area, 1957, 1960–61

(Millions of dollars)

Commodities	All areas, total			Canada			Latin America[1]			Europe			Other areas		
	1957	1960	1961	1957	1960	1961	1957	1960	1961	1957	1960	1961	1957	1960	1961
Selected manufactures:															
Foreign production	12,438	16,050	17,705	5,201	5,630	5,920	1,424	2,090	2,390	4,505	6,910	7,735	1,308	1,670	1,660
U.S. exports	7,630	7,941	8,255	1,600	1,671	1,700	2,033	2,131	2,045	1,336	2,008	2,285	1,709	1,941	2,123
Paper and allied products:															
Foreign production	881	1,290	1,310	760	1,100	1,115	55	70	85	34	60	70	23	30	40
U.S. exports	324	419	463	65	72	78	97	24	22	91	103	179	71	160	174
Chemicals:															
Foreign production	2,411	3,200	3,975	807	1,150	1,300	409	630	820	822	1,240	1,510	103	280	345
U.S. exports	1,376	1,661	1,700	240	277	285	457	420	370	353	561	574	320	403	471
Rubber products:															
Foreign production	968	1,170	1,216	272	310	295	239	290	300	202	360	400	105	220	220
U.S. exports	300	372	330	43	62	48	62	74	63	97	103	131	98	83	78
Machinery, except electrical:															
Foreign production	1,908	2,490	2,735	695	780	700	68	100	115	1,009	1,420	1,635	133	190	225
U.S. exports	3,100	3,295	3,095	870	824	704	1,007	633	569	567	806	1,017	710	832	923
Electrical machinery:															
Foreign production	2,017	2,280	2,470	1,080	1,010	1,000	108	240	300	678	890	1,050	90	110	120
U.S. exports	810	793	807	246	230	223	201	246	264	114	171	212	100	167	105
Transportation equipment:															
Foreign production	4,228	6,170	6,000	1,488	1,050	1,450	375	710	770	1,700	2,970	3,070	665	840	710
U.S. exports[2]	1,566	1,401	1,287	393	406	309	719	636	468	104	134	122	350	390	292

1. Includes other Western Hemisphere.
2. Excludes civilian aircraft.

NOTE.—Detail may not add to totals, due to rounding.

Effect of Shift in Date of Easter on Apparel Store Sales

(Percent of annual average)

	1957	1961
January	77	77
February	98	98
March	81	[1] 101
April	[2] 111	89
May	97	97
June	97	97
July	84	83
August	91	91
September	89	101
October	106	104
November	111	110
December	175	179

1. Easter date April 2.
2. Easter date April 21.

provides the necessary guide for making many of these operational decisions.

At least two approaches are available to obtain unadjusted monthly or quarterly forecasts. In the first, an annual forecast is decided upon by the utilization of any one of several available methods; often individual judgment adds the final touch in arriving at the "best" estimate for the year as a whole. The monthly or quarterly forecasts may then be derived by prorating the annual total in accordance with the seasonal pattern derived from the firm's past experience.

The second method is used when the forecasts rely on the firm's analysis of the factors influencing its quarterly or monthly fluctuations based on prior experience. In this approach the movement of seasonally adjusted data for the company is analyzed and quarterly or monthly forecasts are developed in seasonally adjusted terms. The seasonal factors applicable to the particular year are then used to convert the forecasts to unadjusted estimates for the months or quarters.

Some firms use seasonal patterns to guide them in stabilizing their operations over the year. More specifically, if a company is engaged in highly seasonal items, it may experience wide swings in employment, purchasing, and sales with costly and disturbing consequences. One method of overcoming this factor is to diversify operations by adding new lines with offsetting seasonals. For example, apparel stores that formerly carried men's wear exclusively have added women's wear lines. The spurt in these sales at Easter-time has helped to supplement their sales of men's clothing during this period. On the other hand, men's wear sales exhibit larger seasonal gains than women's in June and December. By adding women's apparel, therefore, some stores have been able to lessen the extent of the seasonal fluctuations in their aggregate sales.

Highly seasonal resort areas have attempted to overcome a similar problem by introducing new industries. Diversification is not always practical, however, and some manufacturers have overcome the problem of wide seasonal fluctuations by rescheduling production and by building up stocks in the "off-season" period, thus providing greater continuity in their operations.

Effects of moderating seasonals

Thus, while there has been some conscious effort on the part of firms to moderate their seasonals, the effect can be only limited in scope. As indicated earlier, seasonals arise from influences such as weather conditions and changes in consumer tastes, which are to a large extent not controllable. While increased efforts to lessen seasonal swings are desirable and have many worthwhile effects, such as providing more continuous employment to workers and stabilizing raw material purchases in seasonal industries, nevertheless their contribution to economic growth would apparently be small, as indicated by a study [9] recently released by the Committee for Economic Development.

9. It was estimated that if two-thirds of the seasonal fluctuations in nonfarm production could be eliminated in the next two decades the contribution of this factor alone to the long-term annual growth rate of 3 percent would amount to only one-tenth of one percent. "The Sources of Economic Growth in the United States," E. F. Denison, Supplementary Paper No. 13.

U. S. Direct Foreign Investments

(Continued from p. 23)

East, both foreign production by U.S. enterprises and exports from the United States rose by about 25 percent in the period. Exports to these areas are still larger than local production by United States-owned plants for most major commodities and include, of course, shipments financed by Government grants and credits.

Production by U.S. companies of these manufacturing commodities in Latin America has made considerable gains since 1957, increasing by $1 billion to a total of $2.4 billion. In the same period, exports from the United States have declined, so that local production in the area of such items as chemicals, electrical machinery, and transportation equipment now exceeds U.S. exports.

The comparative volumes of exports and local sales are influenced by many factors, including overall demand conditions in individual foreign markets, the degree of interchangeability between specific products, special foreign exchange or trading restrictions enforced in some countries, the technical conditions of production and shipment, and many others.